strategy&

Formerly Booz & Company

April 2015

Serving the Connected Customer of the Future
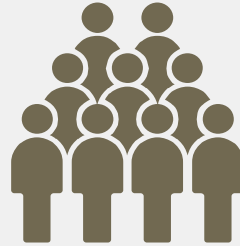
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Strategy& ETA Survey Findings

pwc

Our team contacted 1,000+ consumers, 27 merchants and 50+ payments executives on payments trends

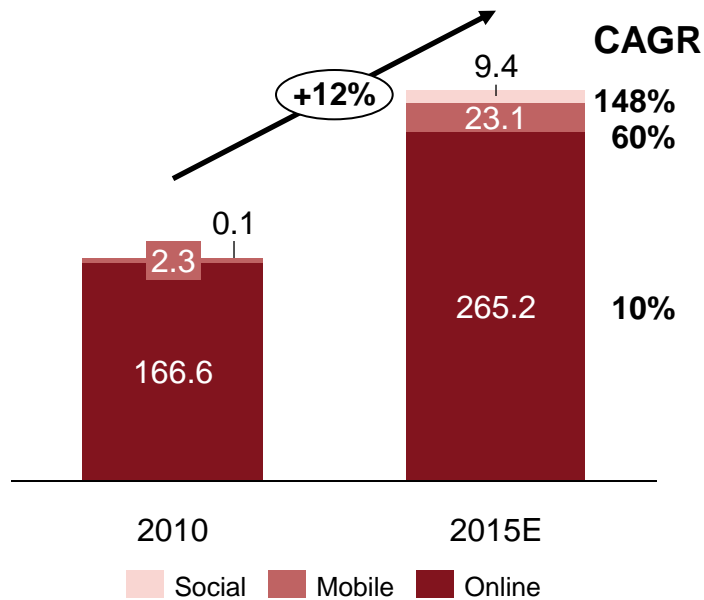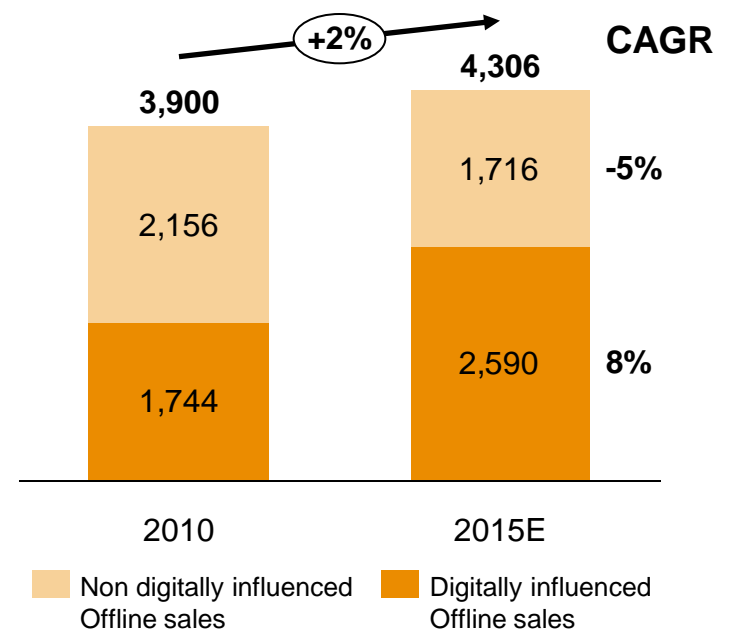| **Consumer Survey**		• 1,000+ Consumers • Distribution across age, ethnicity, demographic • Distribution across geography and metro area type (urban/rural)

Merchants and Billers		• Surveyed 13 merchants
		  – Four: $0-$499M Rev
		  – One: $500M – $999M Rev
		  – Eight: $1B+ Rev
		• In-depth interviews with 14 merchants including eTailers, QSRs, T&E, Petro, & general retail

ETA Members		• Surveyed 52 ETA member firms • Survey participants of all sizes with ~50% of respondents small >$25M in revenue

Survey questions focused on the digitization of shopping

Digital retail sales
2010–2015, in $B

CAGR

+12%

9.4

148%

23.1

60%

0.1

2.3

265.2

10%

166.6

2010   2015E

Social   Mobile   Online

Store-based retail sales
2010–2015, in $B

CAGR

+2%

4,306

3,900

2,156

1,716

-5%

1,744

2,590

8%

2010   2015E

Non digitally influenced
Offline sales
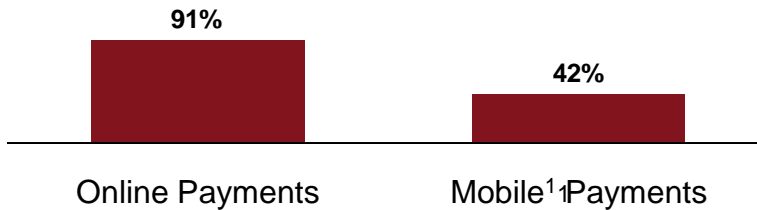
Digitally influenced
Offline sales

From 2010–2015 – Digital retail sales forecast to grow **6×** faster than store-based sales

Consumers are increasingly using digital tools to shop – digitally influenced sales **~ 60%** of total 2015 sales
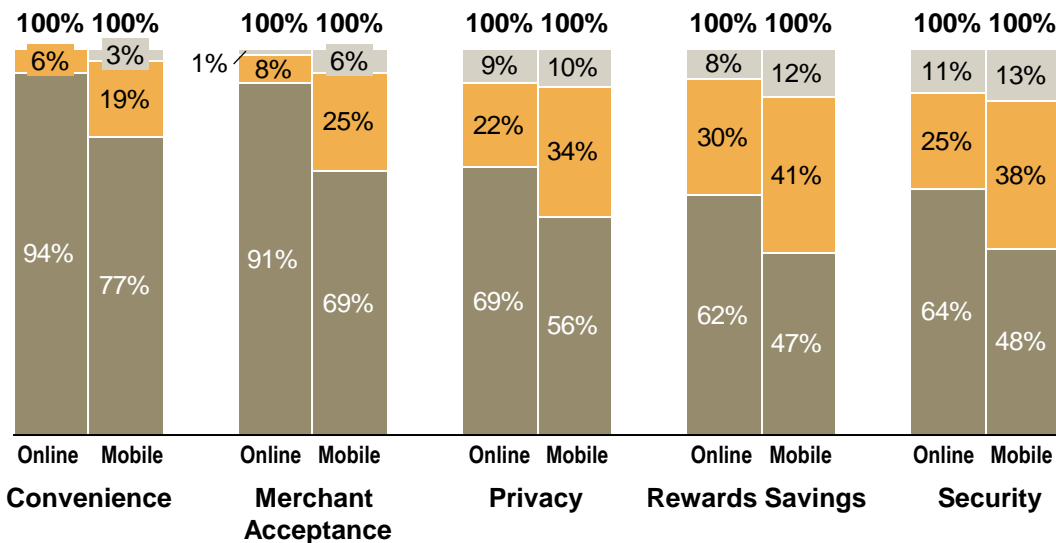
Source: Strategy& analysis, U.S. Dept. of Commerce, Euromonitor International, Gartner, Forrester, eMarketer, S&P

Online payments ubiquitous; Mobile payments must improve customer experience, security, acceptance

Which Have You Used in Last 3 Months

91%

42%

Online Payments   Mobile[1] Payments

Satisfaction with Making Payments

	Convenience	Merchant Acceptance	Privacy	Rewards Savings	Security
	Online / Mobile	Online / Mobile	Online / Mobile	Online / Mobile	Online / Mobile
Dissatisfied	6% / 3%	1% / 6%	9% / 10%	8% / 12%	11% / 13%
Neutral	6% / 19%	8% / 25%	22% / 34%	30% / 41%	25% / 38%
Satisfied	94% / 77%	91% / 69%	69% / 56%	62% / 47%	64% / 48%

Legend: Dissatisfied | Netural | Satisfied
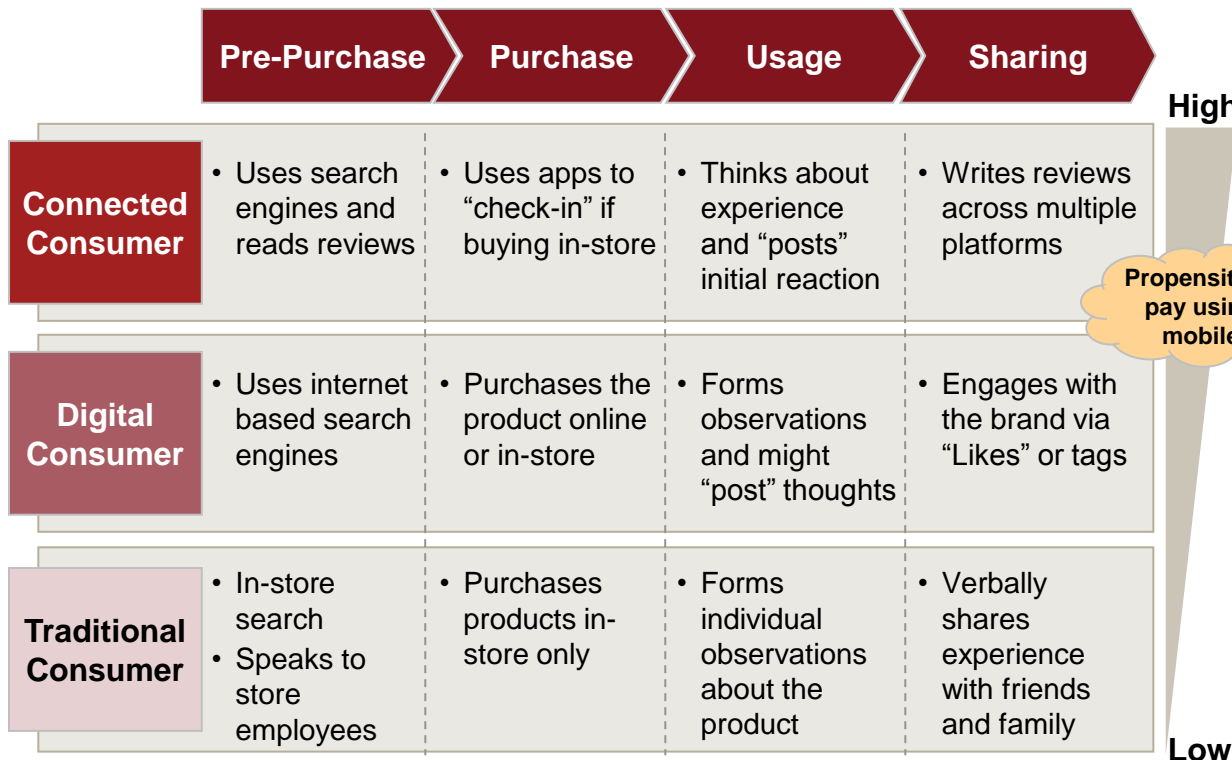
Key Findings

Online Shopping

90+%   *Nearly ubiquitous*

Mobile – Merchant Acceptance

~30%   *Neutral/dissatisfied*

Mobile – Security

~50%   *Overall, about half of consumers are satisfied with security, but a significant gap exists across online and mobile*

Source: Strategy& payments survey 1000+ consumers, Strategy& analysis   [1] Mobile payments defined broadly as either mobile web payment or mobile payment at POS
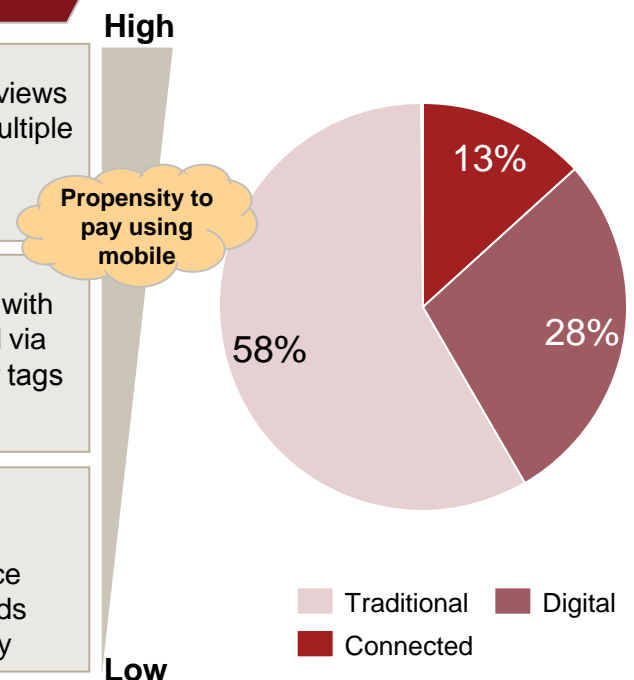
Merchants must be able to serve traditional customers but also the 40+% who use digital tools to shop

Consumer Value Chain

Pre-Purchase	Purchase	Usage	Sharing

High

Connected Consumer	• Uses search engines and reads reviews	• Uses apps to "check-in" if buying in-store	• Thinks about experience and "posts" initial reaction	• Writes reviews across multiple platforms
Digital Consumer	• Uses internet based search engines	• Purchases the product online or in-store	• Forms observations and might "post" thoughts	• Engages with the brand via "Likes" or tags
Traditional Consumer	• In-store search • Speaks to store employees	• Purchases products in-store only	• Forms individual observations about the product	• Verbally shares experience with friends and family

Propensity to pay using mobile

Low

Consumer Types
Based on Mobile Payment Usage

13%

28%

58%

■ Traditional   ■ Digital
■ Connected

Source: Strategy& payments survey 1000+ consumers, Strategy& analysis
Note: "Connected Consumers" are those who have used a mobile device for 20% or more of total electronic payments
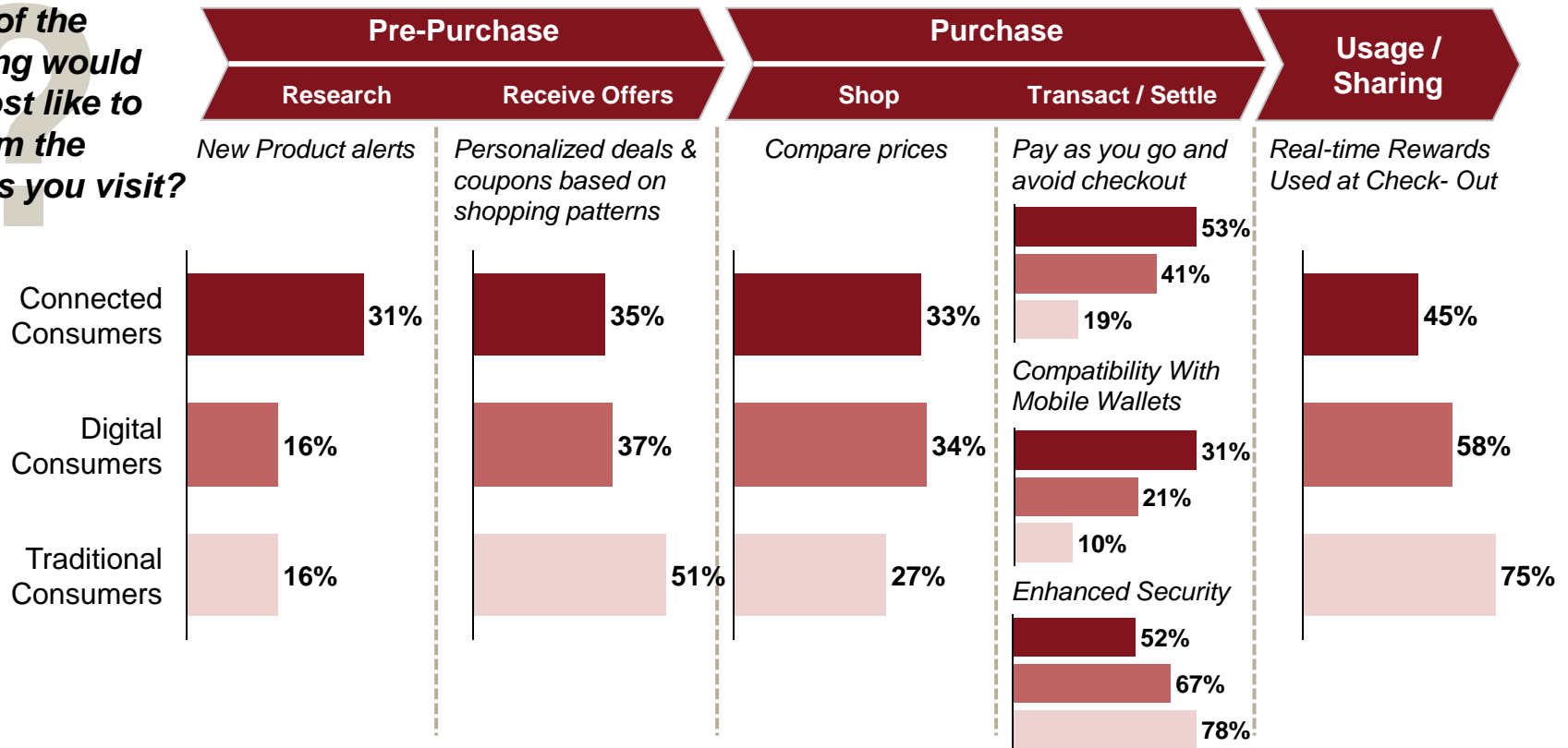   "Digital Consumers" are those who have used a mobile devices for 1-20% of total electronic transactions
          "Traditional Consumers" are those who have not used mobile device for any of their electronic transactions

Traditional consumers value security & savings whereas digital and connected consumers value convenience / time

Percent of Respondents Listing Functionality as "Top Three"

Which of the following would you most like to see from the retailers you visit?

	Pre-Purchase		Purchase		Usage / Sharing
	Research	Receive Offers	Shop	Transact / Settle	
	New Product alerts	*Personalized deals & coupons based on shopping patterns*	*Compare prices*	*Pay as you go and avoid checkout*	*Real-time Rewards Used at Check- Out*

Pay as you go and avoid checkout
- Connected Consumers: 53%
- Digital Consumers: 41%
- Traditional Consumers: 19%

Compatibility With Mobile Wallets
- Connected Consumers: 31%
- Digital Consumers: 21%
- Traditional Consumers: 10%

Enhanced Security
- Connected Consumers: 52%
- Digital Consumers: 67%
- Traditional Consumers: 78%

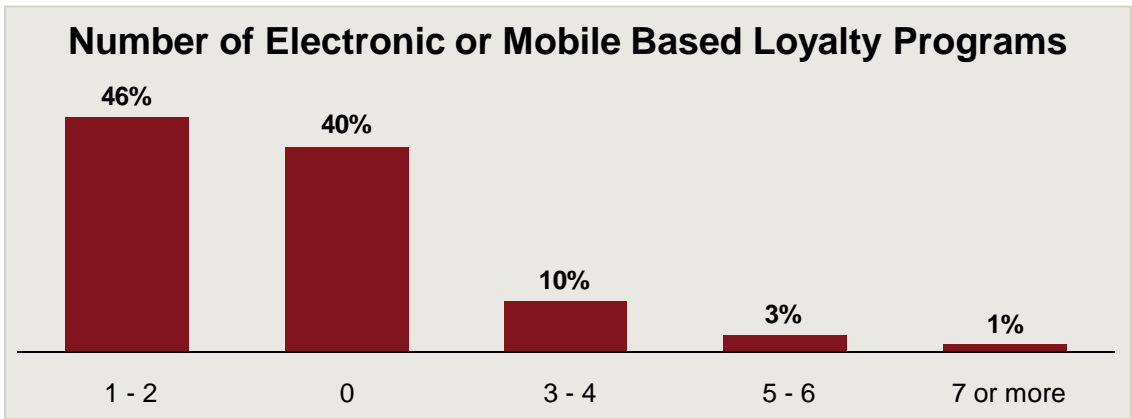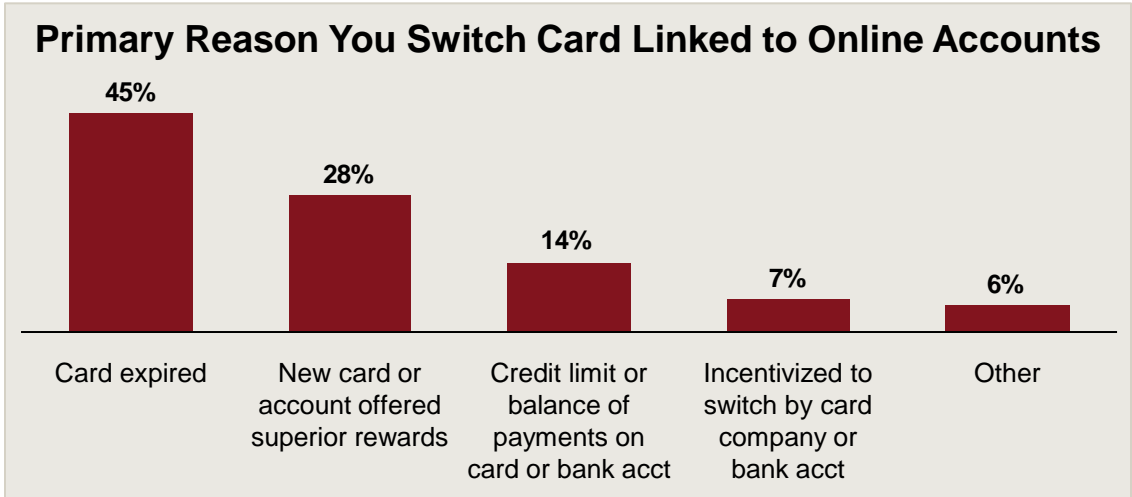|	New Product alerts	Personalized deals & coupons	Compare prices	Real-time Rewards
Connected Consumers	31%	35%	33%	45%
Digital Consumers	16%	37%	34%	58%
Traditional Consumers	16%	51%	27%	75%

Source: Strategy& payments survey 1000+ consumers, Strategy& analysis
Note: "Connected Consumers" are those who have used a mobile device for 20% or more of total electronic payments
"Digital Consumers" are those who have used a mobile devices for 1-20% of total electronic transactions
"Traditional Consumers" are those who have not used mobile device for any of their electronic transactions

Keeping card credentials current and engaging customers in card linked loyalty will be key merchant challenges

Primary Reason You Switch Card Linked to Online Accounts

| Card expired | New card or account offered superior rewards | Credit limit or balance of payments on card or bank acct | Incentivized to switch by card company or bank acct | Other |
| 45% | 28% | 14% | 7% | 6% |

Number of Electronic or Mobile Based Loyalty Programs

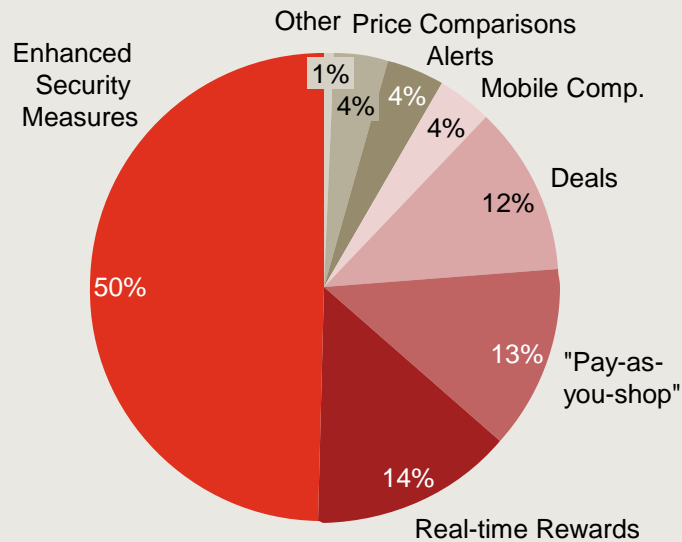| 1 - 2 | 0 | 3 - 4 | 5 - 6 | 7 or more |
| 46% | 40% | 10% | 3% | 1% |

Key Findings

- Solutions required to keep cards updated

- Stored cards turn over on average every 3 years in stored credentials which is a problem for certain merchant categories (e.g., auto billers)

- Need for compelling merchant loyalty programs - Limited customer loyalty program shelf-space

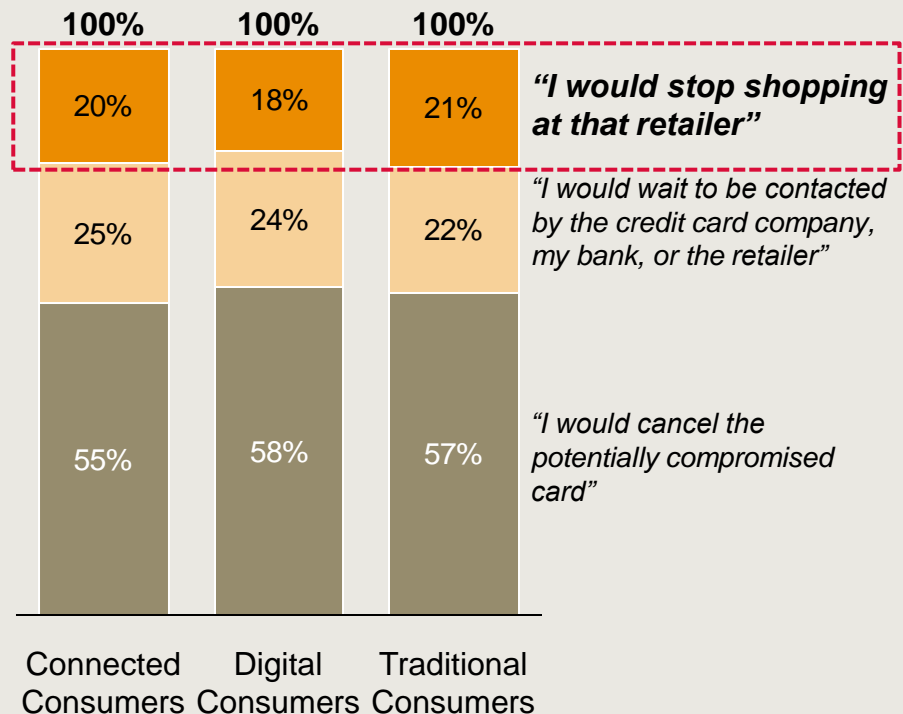*Source: Strategy& payments survey 1000+ consumers, Strategy& analysis*

Overall, security remains a central concern for consumers and a major potential risk for merchants

Which of the following would you most like to see from the retailers you visit?

Percent Listing Need as "Most Important"

- Enhanced Security Measures — 50%
- Real-time Rewards — 14%
- "Pay-as-you-shop" — 13%
- Deals — 12%
- Mobile Comp. — 4%
- Price Comparisons Alerts — 4%
- Other — 4%
- 1%

How would you react if you learned that your credit or debit card information may have been compromised in a retailer security breach?

	Connected Consumers	Digital Consumers	Traditional Consumers
	100%	100%	100%
"I would stop shopping at that retailer"	20%	18%	21%
"I would wait to be contacted by the credit card company, my bank, or the retailer"	25%	24%	22%
"I would cancel the potentially compromised card"	55%	58%	57%

Source: Strategy& payments survey 1000+ consumers, Strategy& analysis
Note: "Connected Consumers" are those who have used a mobile device for 20% or more of total electronic payments
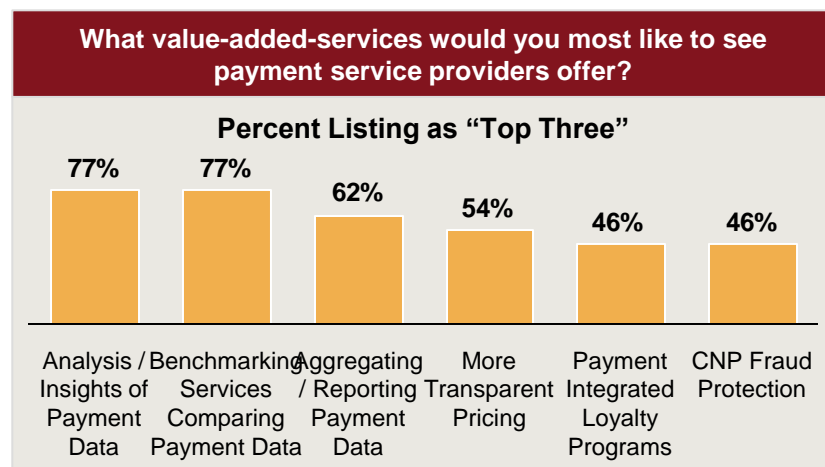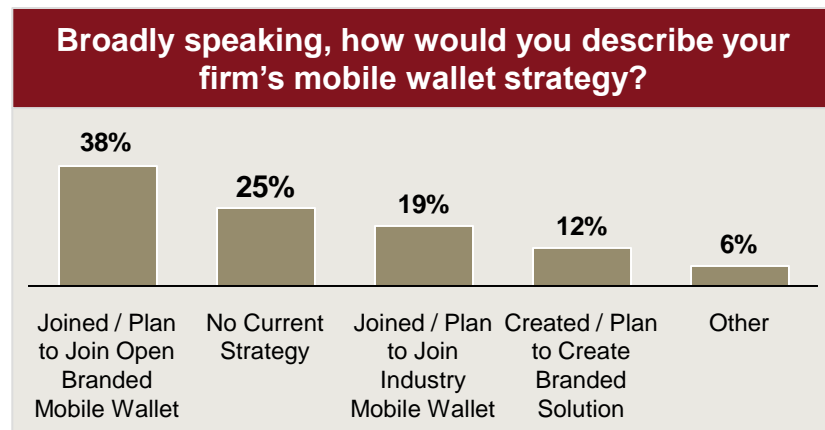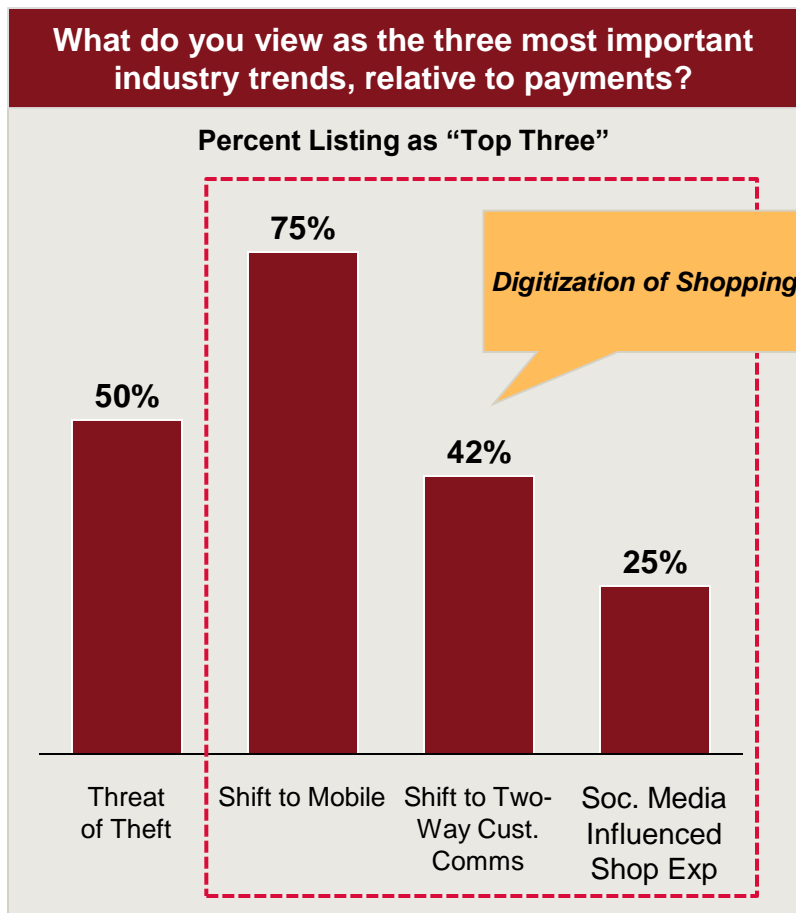*"Traditional Consumers" are those who have used a mobile devices for less than 20% of total electronic transactions*

Insights and implications for ETA members

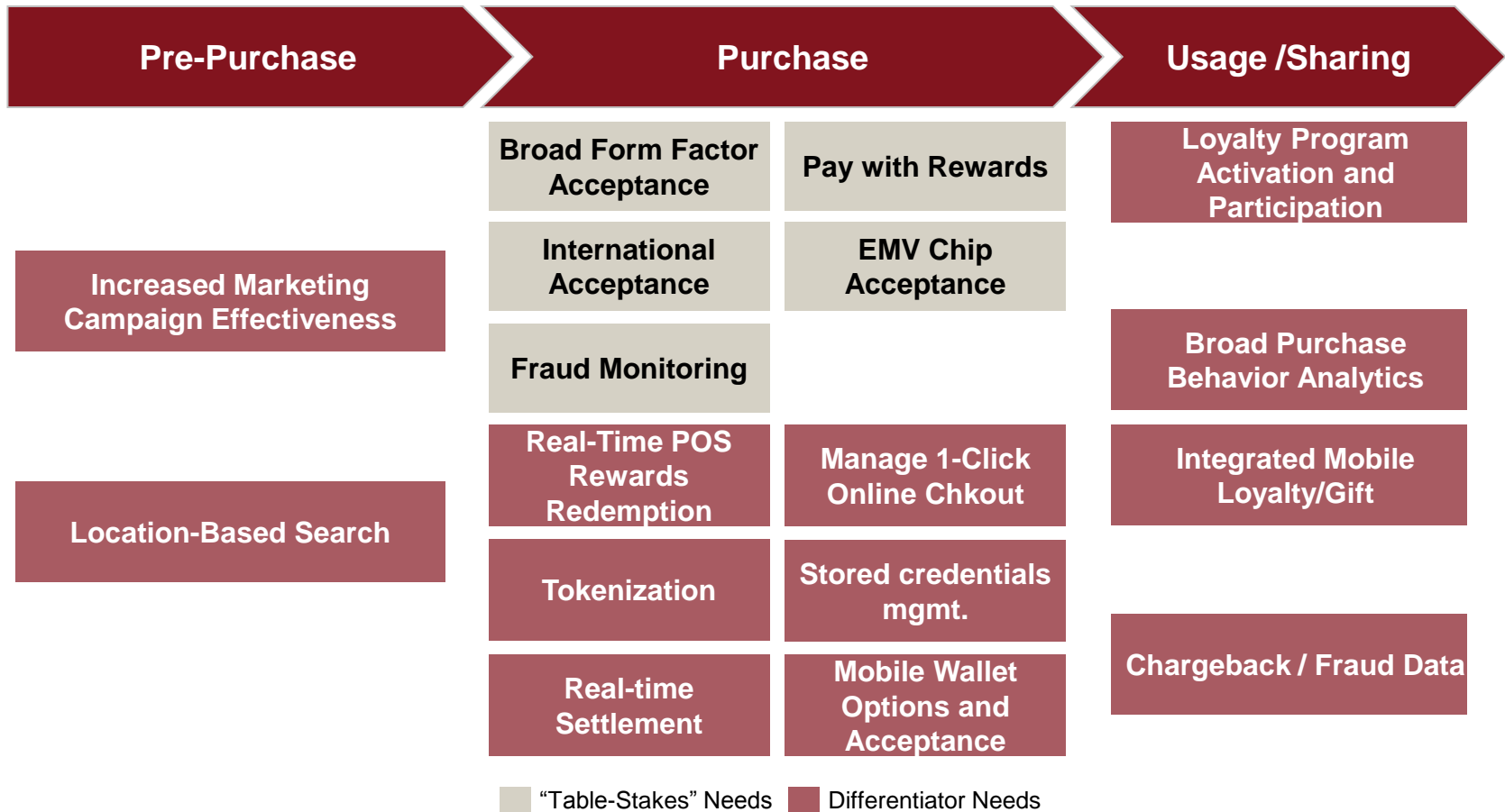| Trend	Key Insights	Implications for ETA Members
Digitization of Shopping / Increasing Complexity	• Shopping is becoming increasingly digital • Consumers are increasingly turning to web for in-store purchase decisions	• **Shifting away from point to point model** • Merchants will need to address shifts in customer buying habits • Building **flexible integration architecture** will be key to keeping up with changes (e.g., APIs)
Increasing Importance of Data	• Merchants have real opportunity to benefit from readily available consumer data • Will only expand with proliferation of mobile	• Best in class will excel in **capture, distillation and packaging** • Will create opportunities to **develop consumer insights** and **targeted marketing**
Changing Consumer Preferences	• Consumers will become increasingly "connected" and strongly influenced by information/ social platforms	• "Connected Consumers" will drive demand for majority of technology changes • **Focus will shift to consumer experience** (in-store and online)
Increased Focus on Security	• Security is a top concern for consumers (both "connected" and traditional)	• Retailers **risk losing customers** if they don't get it right

■ Emerging Capability   ■ Table-Stakes

Merchants perceive digital shopping trends and seek help from their payment service providers to prepare

What do you view as the three most important industry trends, relative to payments?

Percent Listing as "Top Three"

Digitization of Shopping

- Threat of Theft: 50%
- Shift to Mobile: 75%
- Shift to Two-Way Cust. Comms: 42%
- Soc. Media Influenced Shop Exp: 25%

Broadly speaking, how would you describe your firm's mobile wallet strategy?

- Joined / Plan to Join Open Branded Mobile Wallet: 38%
- No Current Strategy: 25%
- Joined / Plan to Join Industry Mobile Wallet: 19%
- Created / Plan to Create Branded Solution: 12%
- Other: 6%

What value-added-services would you most like to see payment service providers offer?

Percent Listing as "Top Three"

- Analysis / Insights of Payment Data: 77%
- Benchmarking Services Comparing Payment Data: 77%
- Aggregating / Reporting Payment Data: 62%
- More Transparent Pricing: 54%
- Payment Integrated Loyalty Programs: 46%
- CNP Fraud Protection: 46%

Source: Strategy& merchant payments survey

Common needs across merchant categories centered around offers integration and secure transactions

Pre-Purchase	Purchase		Usage /Sharing
	Broad Form Factor Acceptance	Pay with Rewards	Loyalty Program Activation and Participation
Increased Marketing Campaign Effectiveness	International Acceptance	EMV Chip Acceptance	
	Fraud Monitoring		Broad Purchase Behavior Analytics
Location-Based Search	Real-Time POS Rewards Redemption	Manage 1-Click Online Chkout	Integrated Mobile Loyalty/Gift
	Tokenization	Stored credentials mgmt.	
	Real-time Settlement	Mobile Wallet Options and Acceptance	Chargeback / Fraud Data

"Table-Stakes" Needs   Differentiator Needs

Sources: Merchant interviews; Strategy& merchant payments survey, Strategy& Analysis

Payment strategies should address category specific merchant needs

	Pre-Purchase	Purchase		Usage /Sharing
Retail	Drive Traffic Through Location-based Offers	Mobile POS	Cross Channel Integration	
T&E	Drive Traffic Through More Effective Campaigns	Pre-authorization / Enable Mobile Seat Selection	Convenient Mobile Checkout / Cross-merchant Payments	Secure Resell/Swap of Tickets
Petro / C-store	Proximity based offers to drive C-store Traffic	Address Verification / Pre-authorization	Mobile / Cloud Pay-at-pump	Integrate Digital Loyalty Program with POS
Grocery	Drive Loyalty Through In-store, Location-based Offers	Electronic Couponing	Self-service Checkout / Coupon Settlement / Cart Self Chkout	Integrate Digital Loyalty Program with POS
QSR / Fast Casual	Increase Order/Basket Size Though In-store, Location-based Offers	Enable Online Ordering	Contactless / No Signature for Low Ticket	Integrate Digital Loyalty Program with POS

Sources: Merchant interviews; Strategy& merchant payments survey, Strategy& Analysis "Table-Stakes" Needs   Differentiator Needs

Merchants are largely prepared for EMV roll-out but still view security and cost as big pain points

What is your firm's level of readiness for the scheduled EMV rollout?

6%
6%
19%
50%
19%

- Unknown
- Will Not Partipate
- Not Started
- Planning Phase
- Execution Phase

What do you view as the three largest pain-points for merchants, relative to payments?

Percent Listing Need as "Most Important"

100 %

4%
21%
25%
25%
25%

- Privacy
- Complexity
- Lack of Standardization
- Security
- Cost
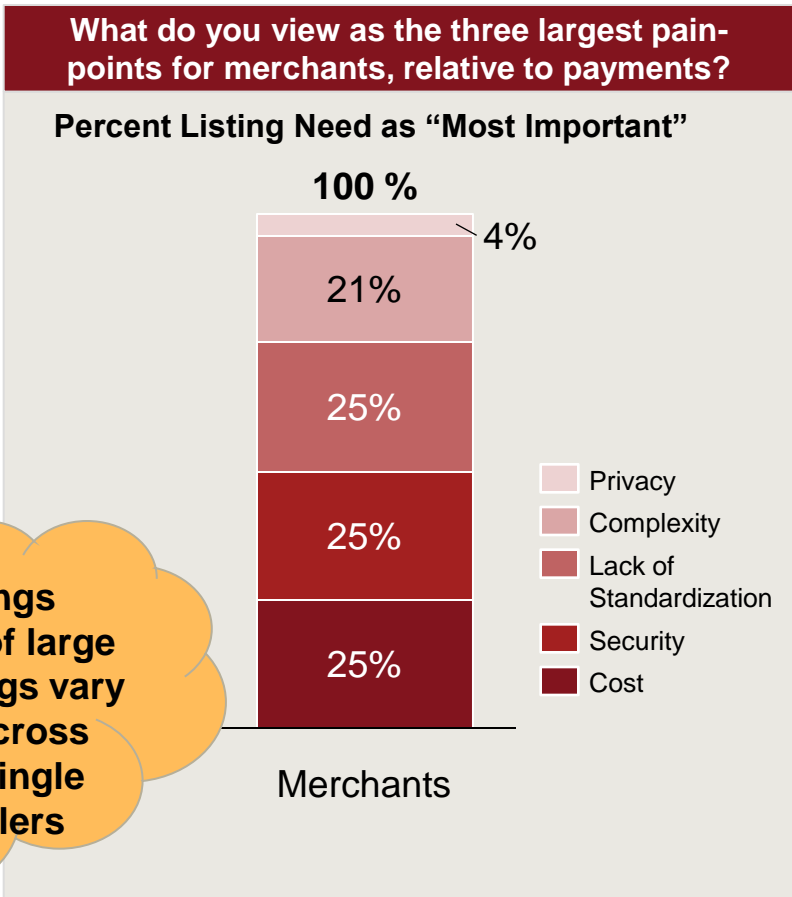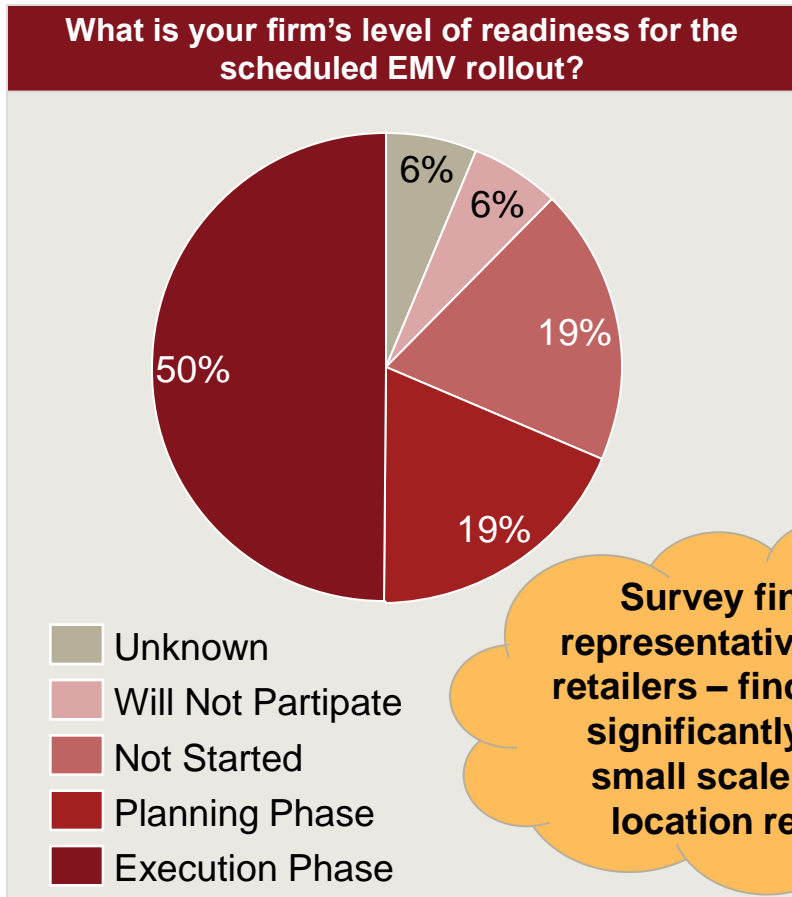
Merchants

Survey findings representative of large retailers – findings vary significantly across small scale / single location retailers

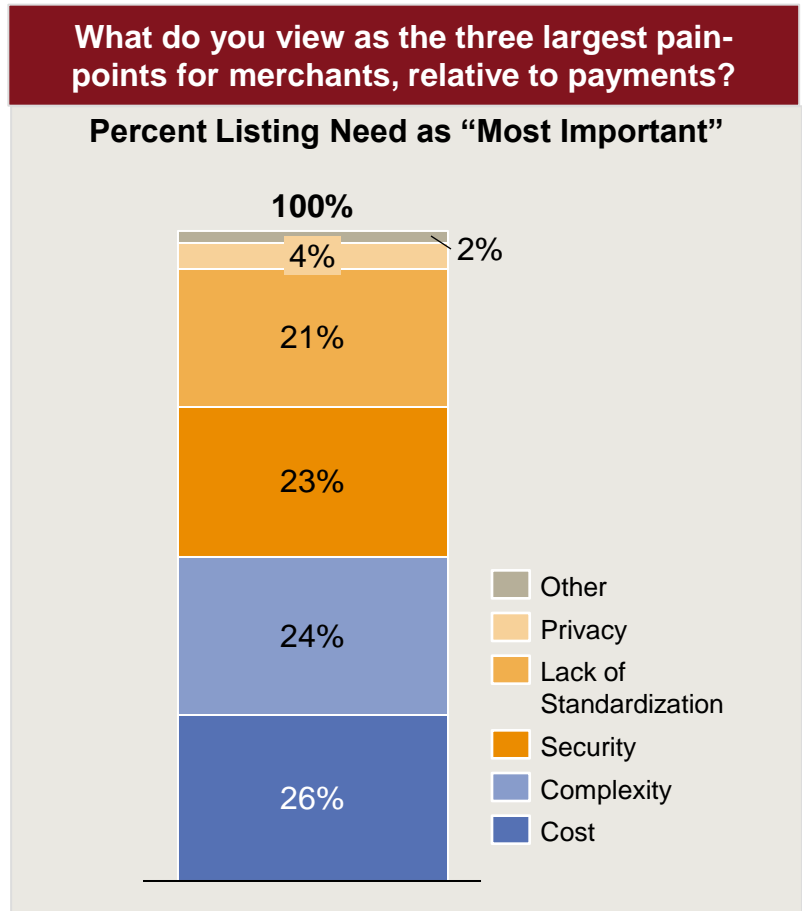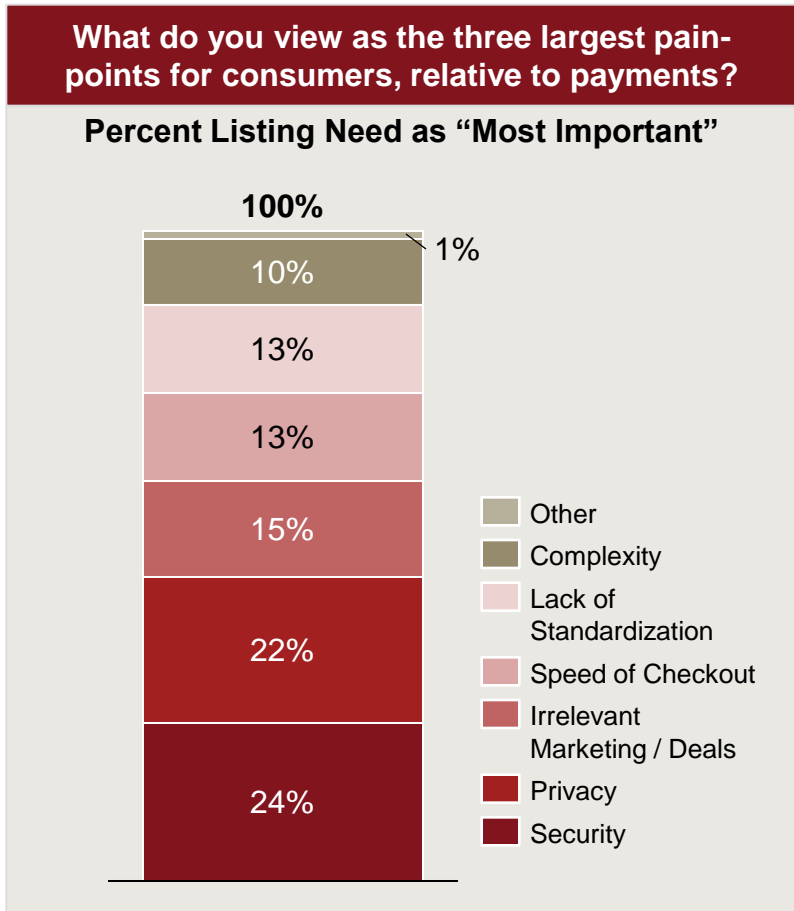# *Insights and implications for ETA members*

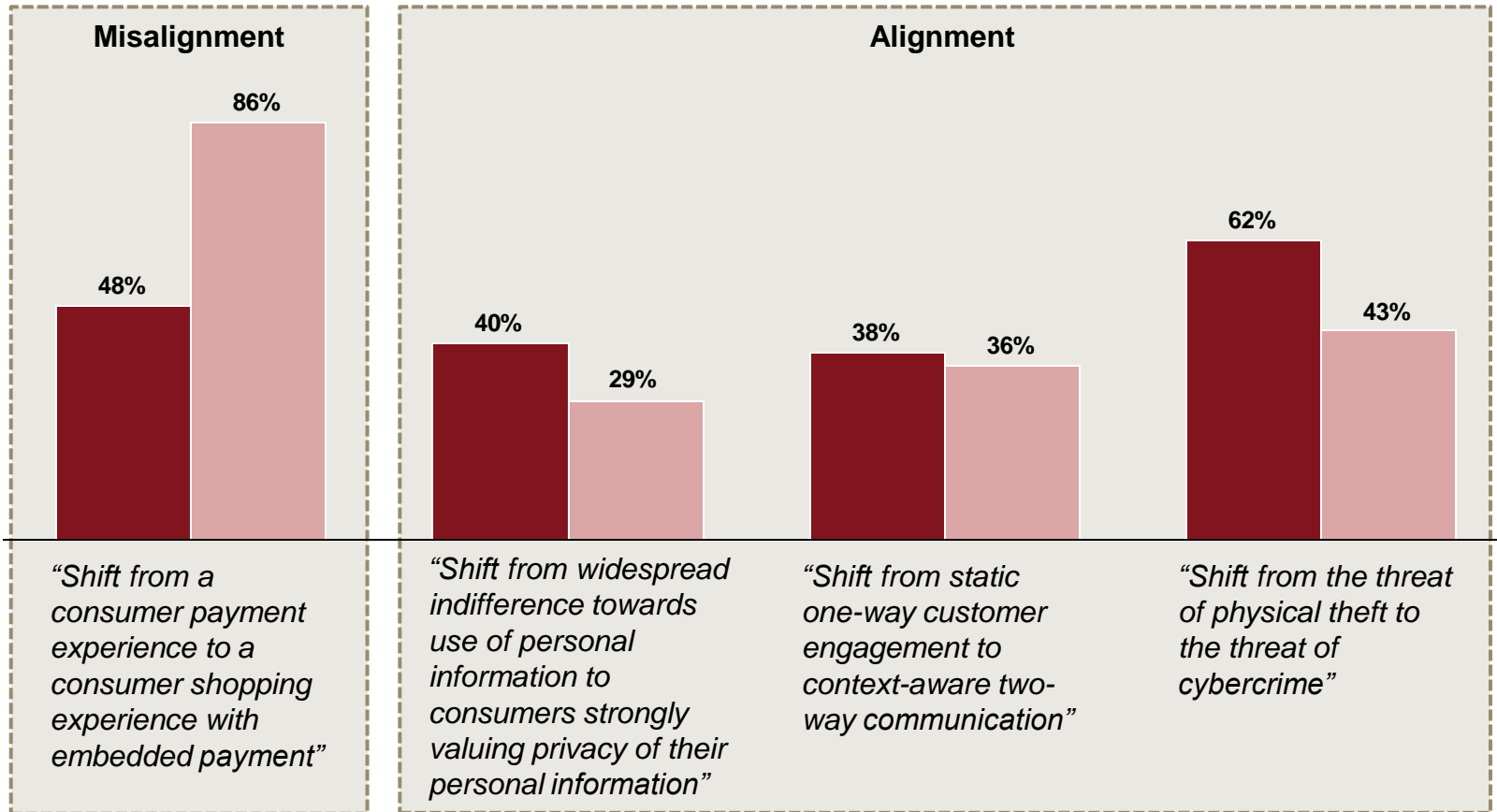| Trend	Key Insights	Implications for ETA Members
Dynamic Merchant Needs	• Merchants have a unique set of critical needs that support their overall customer strategy • Needs will continue to evolve with innovations in payments	• Needs **vary significantly depending on merchant category** • Payments should be viewed as an **opportunity to engage with consumers** – not only as a cost
EMV Readiness	• Firms are largely prepared for EMV roll-out with ~70% overall readiness • Overall readiness varies, however depending on merchant size	• Large retailers that fail to upgrade **will risk increasing fraud costs of liability shift** • **Smaller retailers (i.e. few locations) might choose to skip upgrade** requirements due to minimal existing fraud costs
Security as a Commodity	• Security will eventually become table-stakes • It will no longer be a point of differentiation as consumers' expectations shift • Consumers already expect certain level of security from merchants	• Retailers are **most likely overlooking customer experience in the short term as they prep for EMV roll-out** • Customer experience will become **increasingly important** • **Interoperability and flexible architectures** will help merchants keep up with changes in technology

■ Emerging Capability   ■ Table-Stakes

ETA members have a good understanding of consumer and merchant pain-points

What do you view as the three largest pain-points for consumers, relative to payments?

Percent Listing Need as "Most Important"

100%

- 1%
- 10% — (Other)
- 13%
- 13%
- 15%
- 22%
- 24%

Legend:
- Other
- Complexity
- Lack of Standardization
- Speed of Checkout
- Irrelevant Marketing / Deals
- Privacy
- Security

What do you view as the three largest pain-points for merchants, relative to payments?

Percent Listing Need as "Most Important"

100%

- 4%
- 2%
- 21%
- 23%
- 24%
- 26%

Legend:
- Other
- Privacy
- Lack of Standardization
- Security
- Complexity
- Cost

Source: Strategy& payments survey

ETA Members are aligned with merchants but should consider how to support broader commerce efforts

Percent Listing as "Top Three"

Misalignment

86%

48%

"Shift from a consumer payment experience to a consumer shopping experience with embedded payment"

Alignment

40%

29%

38%

36%

62%

43%

"Shift from widespread indifference towards use of personal information to consumers strongly valuing privacy of their personal information"

"Shift from static one-way customer engagement to context-aware two-way communication"

"Shift from the threat of physical theft to the threat of cybercrime"

■ ETA Members ■ Merchants

Observations / Recommendations

Shopping is largely digital and consumers are increasingly turning to web for in-store purchase decisions as they grow to be **more "connected"**

Payments will be viewed as an **opportunity to engage with consumers** – not only as a cost / complexity

Security is a top concern for consumers but is **becoming table-stakes** as expectations grow - retailers risk losing customers if they don't get it right

Building **flexible integration architecture** will be key to keeping up with **changes in consumer demands** (e.g., APIs)

Merchants are largely **prepared for EMV roll-out** with ~70% overall readiness but security is still a top concern
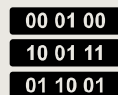
Data capture, distillation, and packaging will become essential with the proliferation of mobile to develop meaningful **consumer insights / targeted marketing**